

Your strategic partners in conduct risk



An enhanced regulatory regime at global, European and national levels, with significant focus on consumer protection and customer outcomes, will have a “big bang” effect on the insurance industry. Key to accommodating these upcoming developments are preparedness and advance planning. At KPMG, we believe that if properly managed, the insurance industry can continue to be both profitable and responsible, and that is why we recommend putting the Conduct Risk agenda at the forefront of the regulatory advisory programme.

What is Conduct Risk



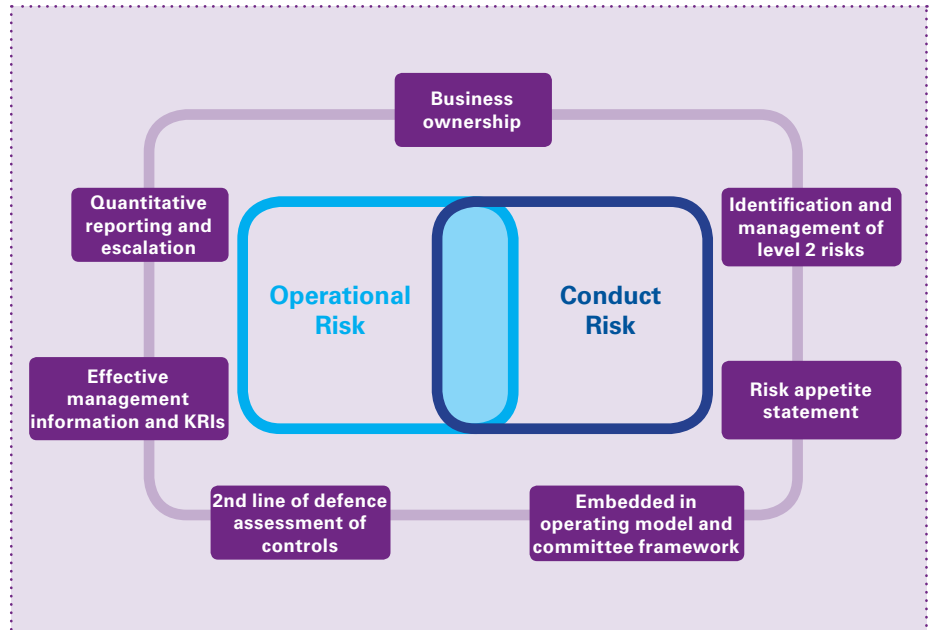
There are different priorities depending on your role

CEO	CRO/Compliance Director	Product Director/ Marketing	COO/CCO
<ul style="list-style-type: none"> Reputational risk and brand impairment Business model profitability Potential for large fines Costs of remediation Effectiveness of 3 Lines Adequacy of controls 	<ul style="list-style-type: none"> Alignment of Conduct Risk to the ORSA Embedded Conduct Risk culture Efficient and effective MI to make decisions CBI preparedness Solid understanding of Conduct Risk within the business Ensure accountability of board and first line 	<ul style="list-style-type: none"> Product development process and market understanding Alignment between customer need and products offered Threat to product mix/ profitability Potential impacts on conversion rates and key business metrics Clarity of product literature and advertising Alignment of channel mix to maximise profitability 	<ul style="list-style-type: none"> Appropriate sales behaviours in place Clearly managed incentive programme focussed on the right behaviours Ensuring granular MI available on operational processes Controls in place around systems and processes Understanding of end-to-end processes Control over outsourced and off-shored services

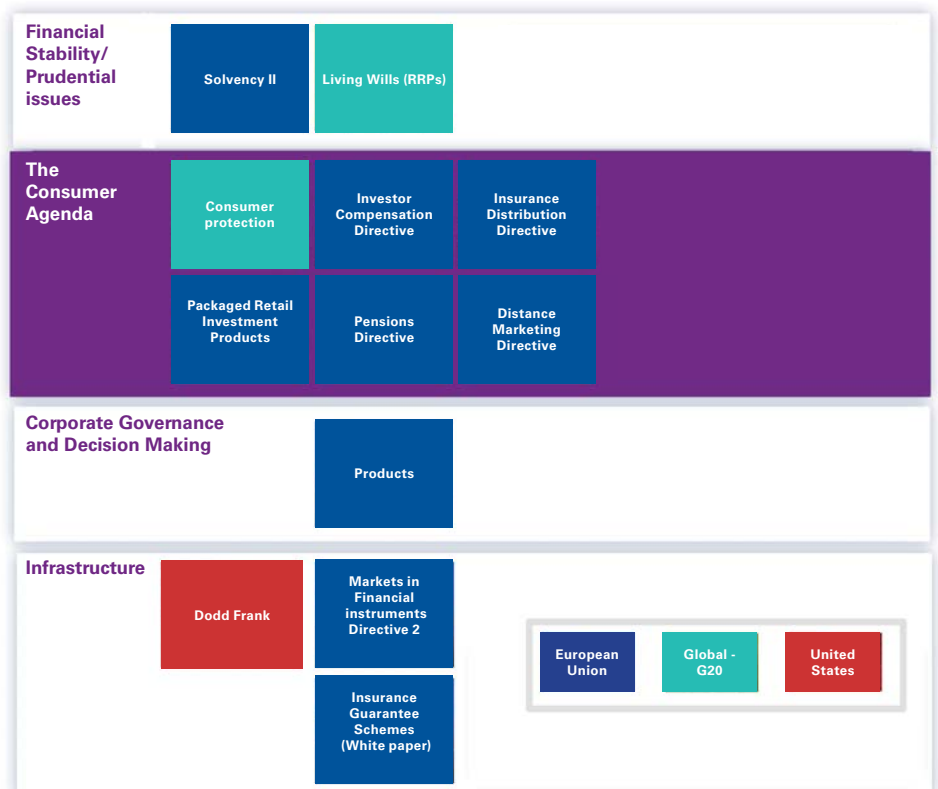
“There is no single right way to define or manage conduct risk – firms need to determine an approach that works for them”

How does conduct risk overlap with operational risk?

- Conduct risk is distinguished from operational risk through its focus on customer detriment - “consumer detriment arising from the wrong products ending up in the wrong hands” (FCA)
- There are many qualitative elements to conduct risk but some can be quantified
- Regulators expect conduct risk to be embedded in firms’ risk frameworks
- Conduct should be considered alongside the other key risks
- Different models can prevail but should demonstrate clarity of scope, ownership and accountability for conduct risk.



The legislative requirements as set down by the EU, G20 and the US are significant.





Key questions for your organisation

What is the potential impact on brand, reputation, market & capital?

How quickly can we identify, analyse consumer risk?

What changes do we need to make?

Who is responsible for conduct risk in the firm?

Is customer harm a priority?

How much could remediation cost us in the future?

KPMG can provide advice on:

**Product
Design &
Governance**

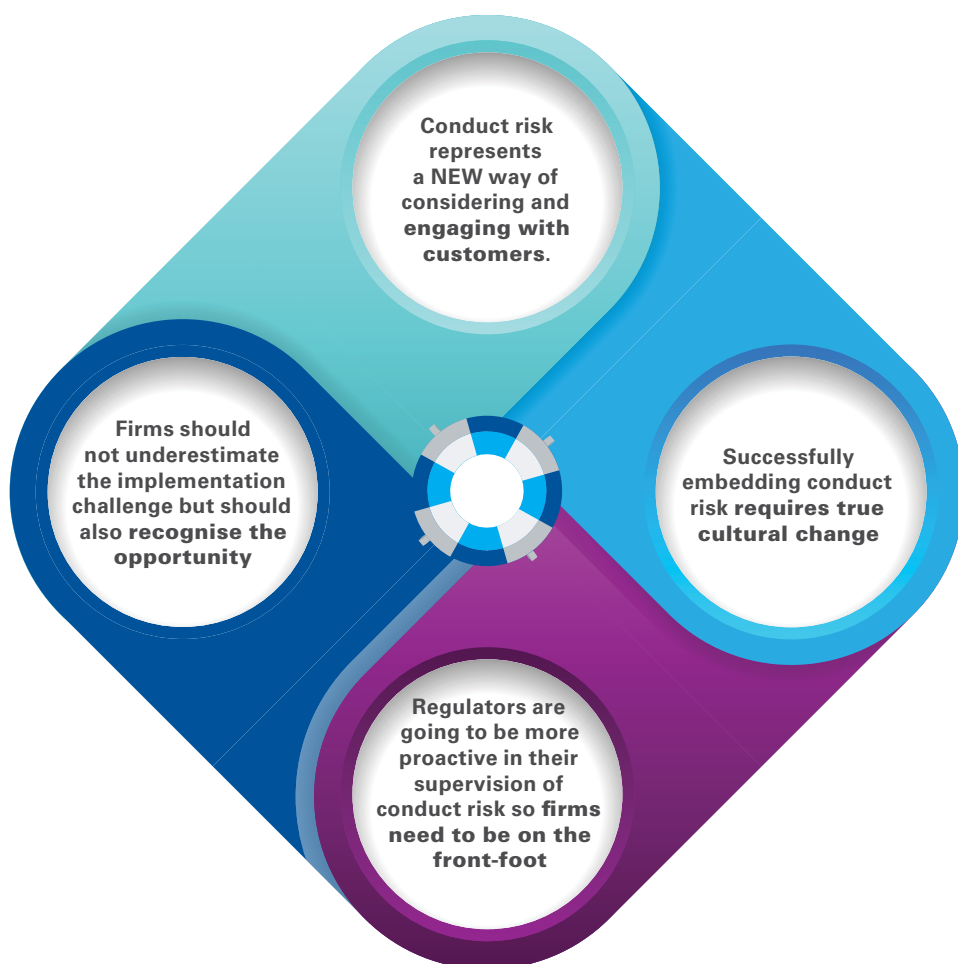
**Sales
Processes and
Remuneration**

**Conduct Risk
Assessment**

**Post Sale
Handling**

**Governance,
Culture &
Controls**

**Back Book
Issues**



In recent years, global, European and domestic legislators and authorities have introduced a large number of new regulations with the objective of making the insurance sector more stable and reducing risks. By focusing on one new regulation at a time, the bigger picture can be lost, bringing with it the risk of missing key inter-relationships and co-dependencies.

With a large number of regulatory-driven projects in the insurance sector, it is a challenge to free up a sufficient number of the highly skilled resources and capital needed to carry out initiatives aimed at realising objectives focused on consumer protection and satisfaction.

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